

OMB FORM 38
JULY 70

ROUTE SLIP

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EXECUTIVE OFFICE OF THE PRESIDENT OFFICE OF MANAGEMENT AND BUDGET

DATE 5-14-71

TO: CIA - Attention: [REDACTED]

STATINTL

FROM: Hilda Schreiber OMB

REMARKS: re DHEW draft proposal, referred
5/12/71, to combine earnings credits
under the Social Security and Civil
Service Retirement Systems:
attached is a copy of the enclosure
which was missing from your copy
of the draft

PROPOSED COMBINING OF EARNINGS CREDITS
UNDER THE SOCIAL SECURITY AND FEDERAL
CIVIL SERVICE RETIREMENT SYSTEMS*

I. Transfers From Social Security To Civil Service Retirement System

Transfer Situations

Not insured under social security, and:

In death cases, worker dies while in CSR employment after completing at least 18 months' employment, or while he is a CSR annuitant.

In life cases, worker at least aged 62 and eligible for CSR benefit (before combining credits). The age 62 limitation would avoid problems arising from the very liberal definition of disability under CSR (under which disabled employees may continue to do other work).

Effect of Annuities Under CSR

Subject to the limitations stated below, each quarter of social security coverage transferred to the CSR would add $\frac{3}{8}$ of 1% to the multiplier based on longevity used in computing the CSR basic annuity. (All social security credits from 1937 on would be subject to transfer.)

Various restrictions on the use of social security credits under CSR are designed to preserve importance of the staff-retirement system role of the CSR system.

Social security credits:

- May not change CSR high-3-year average.
- May not add more than $1\frac{1}{2}$ percent per calendar year to the CSR longevity multiplier.
- May not increase CSR longevity credit for any calendar year to a percentage higher than now provided under CSR law--i.e., $1\frac{1}{2}\%$, $1\frac{3}{4}\%$ or 2% . (Thus, moonlighting social security credits of a regular Federal employee would not increase CSR annuity.)
- May not increase CSR annuity by more than 20 percent.
- May not raise CSR annuity above 80 percent of high-3-year average.
- Could not be used to create eligibility for CSR annuity.
- May not increase CSR benefit by more than 80 percent of the amount of the social security minimum benefit.

*Based on a recommendation of the 1971 Advisory Council on Social Security

4/28/71

Social security credits transferred to the CSRS at age 62 or later (because the worker is not eligible for social security benefits) would be transferred back to social security, if later the worker becomes eligible for social security benefits on the basis of the transferred credits plus social security credits earned after the transfer. The social security benefits to which the worker would become entitled would be subject to deduction until there would be recouped the amount by which the CSR benefit was increased on account of the transferred social security credits, but the deduction would be spread out, if necessary, so as not to be so large as to reduce the total of the monthly benefits paid under both systems to less than the amount of the CSR benefits that had been paid before the CSR benefit was recomputed. The individual would end up in the same position as if there had been no transfer.

The approach would have no effect on those who are entitled to benefits under both systems. It would not create additional situations in which people could get two benefits. When CSR credits are transferred to social security, the effect of the weighting in the social security benefit formula would be reduced.

Financing

Social security would transfer to the CSR fund amounts equal to the social security employee contributions which were payable with respect to the covered work in respect to which earnings credits were transferred to the CSRS. Since worker's credits abide in social security when he stops work covered by social security, the transfer of the employee's credit would occur when a claim is made for CSR monthly benefits and the transfer of the amount of the contributions would be made when a CSR award is made in which social security credits were considered.

The CSRS would be reimbursed from general funds of the Treasury for any amount by which the costs added by the social security credits and the added administrative expense may exceed the amounts transferred from the social security trust funds to the CSR fund. Because of the method of computing CSR benefits an added-on-cost approach would be appropriate for measuring the cost of benefits attributable to social security credits. (A proportionate cost approach does not seem feasible with respect to transfer to the CSRS.)

II. Transfers From the Civil Service Retirement System to Social Security

Transfer situations

No present or potential eligibility for annuity under CSRS and (a) in life cases, the worker is separated from CSR employment, or (b) in death cases, dies before completing 18 months of CSR employment or after leaving Federal employment.

Credits would be transferred when the worker dies, becomes disabled, or reaches age 62, but only where the worker is insured under social security or would become insured by including the credits transferred from CSR.

Effect on Social Security Benefits

The total earnings credited under social security, including credits transferred from CSR, could not exceed the social security contribution and benefit base applicable for the year. Each calendar quarter in which a worker had Federal service would be credited as a quarter of coverage under social security (but in no case could a worker acquire more than a total of four quarters of coverage in a calendar year). Subject to the above, the credits transferred from CSR would count the same as wages covered under social security in computing social security benefit amounts and determining insured status.

All CSR credits for service performed beginning with an effective date on or after enactment would be subject to the transfer provisions. All prior service from 1937 on of an employee with Federal service subject to transfer could be transferred, at the option of the employee, if deposit of contributions to the CSRS has been made with respect to such prior service.

Financing

The CSRS would withhold from refunds of employee contributions and lump-sum death payments made to employees who leave Federal service, or to survivors of employees who die before completing 18 months' employment, amounts equivalent to the employee contributions which would have been payable if the Federal employment had been covered under social security. These "tax equivalents" would be transferred to the social security trust funds.

The social security trust funds would be reimbursed from general funds of the Treasury for any amount by which the proportionate cost of benefits attributable to the transferred social security credits and administrative expense may exceed the amounts transferred from the

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CSRS fund to the social security trust fund and the interest earned on such amounts. Because of the method of computing social security benefits and the weighting that results, the proportionate cost approach would be appropriate for measuring the cost of the benefits attributable to CSR credits.

The proportionate cost would be determined on the basis of the ratio of the dollar amounts of the credits under the two systems which were considered in computing the benefit. For example, if the total credits for Federal service transferred to social security were \$8,000 and credits earned under social security were \$16,000, the transferred CSR credits would be 1/3 of the combined amount of credits (1/3 of \$24,000). If during the year social security benefits of \$3,000 were paid on this account, the social security trust funds would be reimbursed for \$1,000 of the cost of the benefits paid--the proportionate cost attributable to the transferred credits. The actual reimbursement from general revenues would take into account equivalent taxes transferred from the CSRS to social security.